



## Natural Gas Weekly Update

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## Weekly Natural Gas Storage

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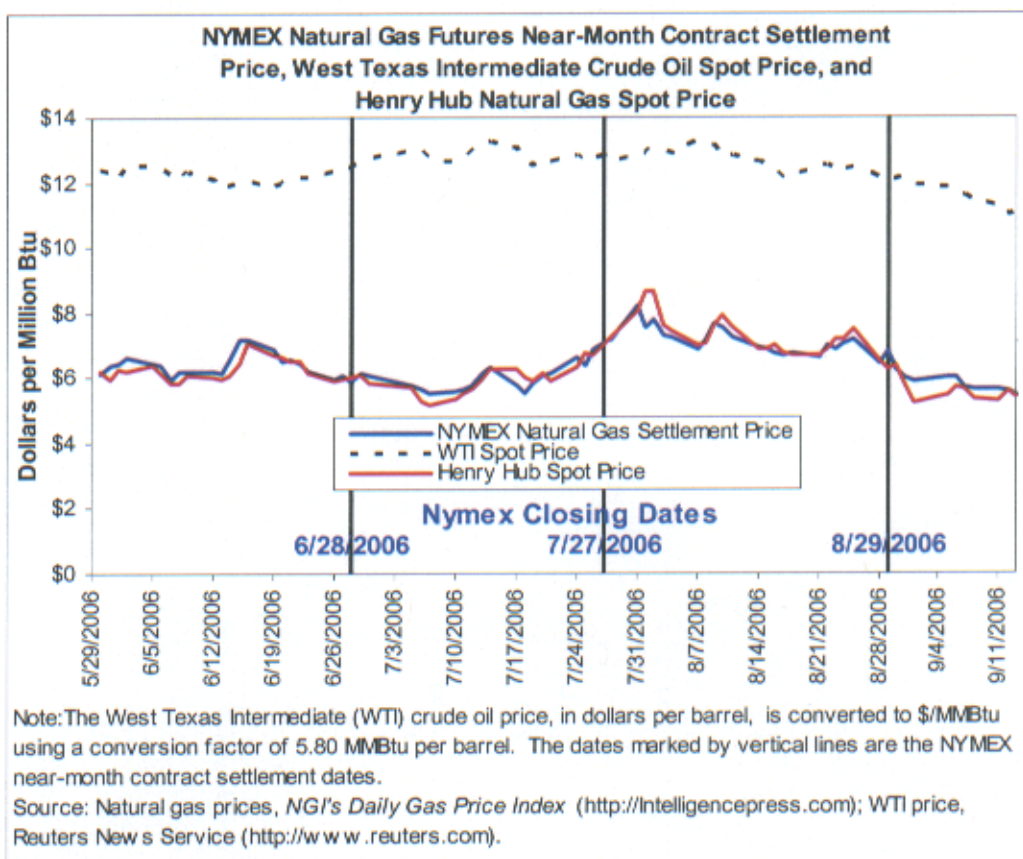
## Natural Gas Restructuring

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**Overview: Thursday, September 14 (next release 2:00 p.m. on September 21, 2006)** Since Wednesday, September 6, natural gas spot prices decreased at most market locations in the Lower 48 States. On Wednesday, September 13, prices at the Henry Hub averaged 69 cents per MMBtu, decreasing 32 cents per MMBtu, or about 6 percent, since the Wednesday. The NYMEX futures contract for October delivery at the Henry Hub was \$5.449 per MMBtu on Wednesday, September 13, falling about 55 cents per MMBtu, or about 10 percent, from the settlement price of \$5.994 recorded last Wednesday. Natural gas production was 3,084 Bcf as of September 8, which is about 12 percent above the 5-year average. The price for West Texas Intermediate (WTI) crude oil decreased \$3.66 per barrel, or about 5 percent, on the week (Wednesday-Wednesday) to \$64.09 per barrel or \$11.05 per MMBtu.

**Prices:**

Spot prices fell since last Wednesday, September 6, with decreases ranging between 69 cents per MMBtu at most market locations. Decreased cooling load resulting in moderating temperatures and falling crude oil prices likely contributed to the price decreases. Price decreases were widespread with declines in most regions averaging between 10 to 20 cents per MMBtu. By far the largest price decreases since last Wednesday occurred in the Rocky Mountain region, where prices fell about \$1.17 per MMBtu on average.

transportation constraints on gas flowing out of the region contributed to declines than \$1 per MMBtu on Wednesday, September 13 (See Other Market Trends). Spot the Opal market location in the Rockies fell to \$3.26 per MMBtu on the same day (September 13)—its lowest level since April 29, 2003. Elsewhere, prices in the California/Arizona/Nevada regions also had significant declines since last Wednesday, September 6, falling 58, and 54 cents per MMBtu on average, respectively. Since August 1, when gas spot prices peaked this summer at most market locations, prices have fallen \$2.26 and \$4.66 per MMBtu, or about 31 to 56 percent. Prices are also below 1 level at this time, with prices at the Henry Hub about \$5.28 per MMBtu or about 4 below last year's level. This year's lower price level reflects an improved natural gas situation relative to last year owing greatly to the absence of hurricane activity in the Mexico this year. Another factor contributing to the lower price level this year relative to last year is the level of working gas in storage, which remains significantly above the average and last year's level at this time.

Spot Prices (\$ per MMBtu)	Thur. 7-Sep	Fri. 8-Sep	Mon. 11-Sep	Tue. 12-Sep	Wed. 13-Sep
Henry Hub	5.64	5.32	5.29	5.57	5.41
New York	6.13	5.66	5.79	5.93	5.69
Chicago	5.67	5.27	5.40	5.63	5.36
Cal. Comp. Avg.*	5.76	5.27	5.42	5.52	5.27
Futures (\$/MMBtu)					
Oct delivery	5.718	5.675	5.670	5.574	5.449
Nov delivery	7.608	7.605	7.255	7.274	7.084

\*Avg. of NGI's reported avg. prices for: Malin, PG&E citygate, and Southern California Border Avg.

Source: NGI's Daily Gas Price Index (<http://intelligencepress.com>).

At the NYMEX, prices for the futures contracts for the next 12 months fell across with the 12-month futures strip (October 2006 through September 2007) posting a decline of about 91 cents per MMBtu, or about 10 percent, since last Wednesday, September 6. The largest declines on the 12-month futures strip occurred for the futures contracts for the heating season months (November 2006 through March 2007) as prices fell by about 11 percent on average since last Wednesday, September 6. Averaging \$5.50 per MMBtu, the futures contract prices for delivery during the upcoming heating season are an average premium of about \$3.37 per MMBtu to the Henry Hub spot price. On the 12-month futures strip (October 2006 through September 2007) traded at a premium of about \$7.96 per MMBtu relative to the Henry Hub spot price, averaging \$7.96 per MMBtu on Wednesday, September 13. Differentials of this magnitude between the spot price and futures contract prices provide suppliers strong economic incentives to inject gas into storage.

#### Recent Natural Gas Market Data

##### Estimated Average Wellhead Prices

	Mar-06	Apr-06	May-06	June-06	July-06	Aug-06
Price (\$ per Mcf)	6.52	6.59	6.19	5.80	5.82	6.51
Price (\$ per MMBtu)	6.35	6.42	6.03	5.65	5.67	6.34

Note: Prices were converted from \$ per Mcf to \$ per MMBtu using an average heat content of 1,027 Btu per cubic foot as published in Table A4 of the [Annual](#)

Energy Review 2002.

Source: Energy Information Administration, Office of Oil and Gas.

**Storage:**

Working gas in storage totaled 3,084 Bcf as of Friday, September 8, which is about 12 percent above the 5-year average inventory level for the report week, according to EIA's *Weekly Natural Gas Storage Report* ([See Storage Figure](#)). This is the earliest that working natural gas levels exceeded the 3,000 Bcf mark in the 12-year history of the EIA Weekly Natural Gas Storage Report Historical Database, and only the third time that the 3,000 Bcf level was exceeded in September. For the week, the implied net injection of 108 Bcf was 22 percent more than the 5-year average of 89 Bcf and 33 percent above last year's injection of 81 Bcf. As of September 8, stocks exceeded last year's level by 339 Bcf and the 5-year average by 341 Bcf. During the report week, temperatures in the Lower 48 States were cooler than normal with cooling degree days (CDD) below normal levels in all nine Census Divisions of the Lower 48 States, except the Mountain and Pacific Census Divisions. Overall, cooling degree days were about 16 percent below normal on average in the Lower 48 States. ([See Temperature Maps](#))

	Current Stocks 9/08/06	One-Week Prior Stocks 9/01/06	Implied Net Change from Last Week	Estimated Prior 5-Year (2001-2005) Average	Percent Difference from 5 Year Average
All Volumes in Bcf					
East Region	1,781	1,716	65	1,593	11.8%
West Region	417	407	10	368	13.3%
Producing Region	886	853	33	781	13.4%
Total Lower 48	3,084	2,976	108	2,743	12.4%

Source: Energy Information Administration: Form EIA-912, "Weekly Underground Natural Gas Storage Report," and the Historical Weekly Storage Estimates Database.  
Row and column sums may not equal totals due to independent rounding.

**Other Market Trends:**

*EIA Releases Its September Short-Term Energy Outlook:* According to the Energy Information Administration's (EIA) latest *Short Term Energy Outlook (STEO)*, released on September 12, 2006, natural gas spot prices at the Henry Hub averaged about \$6.74 per thousand cubic feet (Mcf) in the summer of 2006 and are expected to increase in the upcoming winter owing to winter heating fuel demand. However, the projected average spot price for 2006 of \$7.51 per Mcf is lower than the 2005 average by \$1.35 per Mcf. The 2007 spot price average is expected to increase to about \$8.30 per Mcf, assuming sustained high oil prices, normal weather, and continued economic expansion in the United States. Total U.S. natural gas consumption in 2006 is expected to fall by about 240 billion cubic feet (Bcf) or 1.1 percent below the 2005 level and then increase by about 880 Bcf or 4.1 percent in 2007. The relatively low consumption in 2006 is the result of a large dropoff in residential consumption, which is expected to decline in 2006 by 360 Bcf, or 7.5 percent, from 4.84 trillion cubic feet (Tcf) in 2005. This decline is attributable largely to the mild weather during the early months of 2006. By 2007, residential consumption is expected to rebound to 4.89 Tcf, increasing by 8.4 percent on the year. The mild weather, in conjunction with economic incentives posed by the relative positions of NYMEX futures contract prices and spot prices, also resulted in working gas stocks in storage that have been well above the 5-

year average throughout this year. The high storage levels are expected to continue, with natural gas working inventories projected to start this winter's heating season at the highest levels since 1990. Inventories are expected to total 3,429 Bcf at the end of October, 298 Bcf above the 5-year average. Domestic dry natural gas production in 2006 is expected to increase by 1.1 percent to 18.45 Tcf and by another 1.5 percent in 2007 to 18.73 Tcf.

*NOAA Predicts Continuing El Nino Conditions:* The Climate Prediction Center at the National Oceanic and Atmospheric Administration (NOAA) announced on Wednesday, September 13, that weak El Nino conditions have developed in the equatorial Pacific. Scientists reported that ocean temperatures have increased significantly in the past 2 weeks and these El Nino conditions could continue into 2007. Since El Nino helps to suppress hurricane activity by increasing vertical wind shear over the Caribbean Sea, this development may partly explain why the Atlantic hurricane season has been less active than previous predictions. NOAA adds, however, that the impacts of El Nino have been small so far and weather conditions remain favorable for hurricane formation. The most evident result so far of the developing conditions is drier-than-average tropical precipitation across Indonesia, Malaysia, and most of the Philippines. In the upcoming winter season, North America will likely experience impacts including warmer-than-average temperatures over western and central Canada and over the western and northern United States, wetter-than-average conditions over portions of the Gulf Coast and Florida, and drier-than-average conditions in the Ohio Valley and Pacific Northwest.

#### *Natural Gas Transportation Update:*

- Gulf South Pipeline Company began scheduled maintenance on the Jackson Compressor Station in central Mississippi on Tuesday, September 12. The maintenance will last about 50 days and may reduce capacity by as much as 125 million cubic feet (MMcf) per day.
- Southern California Gas Company issued a high-linepack Operational Flow Order (OFO) on Friday, September 8, and kept it in place through Sunday, September 10. During the OFO, customers were directed to deliver no more than 110 percent of their actual gas usage into the system.
- Southern Natural Gas Company declared an OFO on Friday, September 8, for shippers who created positive imbalances exceeding scheduled volumes by 2 percent or 200 dekatherms, whichever was less. The OFO continued until Sunday.
- Hess Corporation's Sea Robin Processing Plant, located in southern Louisiana, was shut down unexpectedly on Wednesday, September 6, and did not resume processing operations until Sunday around 4:30 p.m. The plant continued to dehydrate during the outage, but asked shippers to adjust gas flows and nominations as needed.
- CenterPoint Energy Gas Transmission Company announced a scheduled outage beginning October 5, at the Waskom Gas Processing Plant in Waskom, Texas. During the outage, which is expected to last 5 to 10 days, supplies into the Line F-185 will be shut in and receipts at the tailgate of the plant will be unavailable.
- Northwest Pipeline Corporation is scheduled to begin a scheduled hydrotest for the Moab District on Thursday, September 14, according to trade press reports. A hydrotest is a quality control method that creates stress on pipeline walls in order to expose defects in the pipeline. During the test, which is expected to last until Monday, operational capacity at the Pleasant View Compressor Station in Colorado will be reduced to zero. An industry analyst estimates that the outage could reduce the Rockies' access to the San Juan Basin by as much as 350 MMcf per day.

#### *Short-Term Energy Outlook*